

TESTIMONY OF DR. RAJIV SHAH
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House Committee on Foreign Affairs

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*“The Agency for International Development and the Millennium Challenge Corporation:
Fiscal Year 2012 Budget Requests and Future Directions in Foreign Assistance”*

Thank you very much Madam Chairman, Ranking Member Berman, and members of the Committee. I’m honored to join you here today in support of the President’s Fiscal Year 2012 Foreign Operations Budget Request.

First, I want to briefly comment on USAID’s response to the devastating earthquake and subsequent tsunami that hit Japan last Friday. USAID has led the international crisis response, coordinating an interagency effort with the Nuclear Regulatory Commission, and the Departments of Energy, Defense and Health and Human Services.

We’ve dispatched a Disaster Assistance Response Team and two Urban Search and Rescue Teams. These teams—from Fairfax and Los Angeles Counties—are the same that responded so bravely and effectively to the January 2010 earthquake in Haiti. I’d like to thank these teams for their courage.

Our thoughts and prayers are with the Japanese people at this tragic time, and we will continue to work closely with the Government of Japan to respond to their requests for assistance as quickly as possible.

USAID has also led the humanitarian response to recent events in the Middle East. Even as we speak, USAID teams are positioned on the Tunisian and Egyptian borders, helping deliver assistance to refugees in dire need, while also working to aid tens-of-thousands of migrants in dire need of assistance with onward travel. Our Democracy and Governance and Middle East teams are also working with counterparts to help countries pursue a credible transition to democracy.

INNOVATIVE APPROACHES

Madam Chairman, one year ago in this chamber, you outlined a number of ways in which USAID could leverage the transformative power of innovation to make our programs more efficient and more effective for the people we serve. Specifically, you asked us to increase our private sector engagement, to harness the power of technology, and to expand the use of our Development Credit Authority to more effectively leverage private investment.

Ranking Member Berman, you emphasized the importance of ensuring that “aid reaches those who need it most” and that it is delivered with “maximum effectiveness and

efficiency.”

I have taken these concerns to heart.

Consistent with the President’s Policy Directive on Global Development and the Quadrennial Diplomacy and Development Review, we’ve launched a series of reforms we call USAID Forward, designed to cut red-tape and free our talented staff to deliver results. Both the President and Secretary Clinton have argued that development is as important to our nation’s foreign policy as diplomacy and defense, and as a result have actively supported the goal of reestablishing USAID as the world’s premier development Agency.

We are also placing a renewed emphasis on economic growth, driven by private sector investment. In all our work, we’re relying much more on leveraging private sector investment and building public-private partnerships in countries committed to good governance and pro-business reforms.

To spur private sector growth, we are supporting Coca-Cola’s initiative to promote the Haitian mango juice industry, and are about to invest \$124 million in an industrial park to turn Haiti into a textile-manufacturing hub for the Western Hemisphere.

Through our Feed the Future initiative we are helping countries develop their own agricultural sectors, so they can feed themselves—an effort that began under President George W. Bush.

In East Africa, groundbreaking new partnerships with Pepsico and General Mills will lead to tens-of-millions in investment to develop future markets and help lift people out of a state of hunger and poverty.

Through Feed the Future, we will be able to help nearly 18 million people in 20 countries—most of them women—grow enough food to feed their families and break the grips of hunger and poverty. These countries were selected based on their own willingness to invest in agriculture and encourage investment from other donors, foundations and private companies, allowing us to leverage our efforts several-fold.

Our FY 2012 budget request calls for doubling the amount of “credit subsidy” for our Development Credit Authority (DCA) and for DCA to more than double the ceiling on its loan guarantees.

DCA allows us to generate \$28 of private investment for every \$1 of taxpayer funds—an incredible leverage ratio by any standard. Since the program’s inception in 1999, we mobilized \$2.3 billion dollars of credit in 64 countries at a cost of just \$82 million.

We’ve developed a new venture capital-style investment fund—the Development

Innovation Ventures Fund—so we can support start-ups, researchers and non-profits focused on the problems of the developing world. This fund has already funded several projects, including a team at the University of California San Diego that used mobile phones to detect fraud during last year's Afghan elections.

And across our portfolio, we are seeking new ways to harness the power of mobile phones for development. In Haiti, rather than rebuilding brick-and-mortar banks devastated by the earthquake, we're partnering with the Gates Foundation to begin a mobile Banking revolution in the country. By allowing Haitians to save money and make transactions on their cell phones, we're encouraging local wealth creation and cutting back on corruption and wage-skimming.

This approach forms the foundation of a new series of grant challenge partnerships USAID introduced just last week. Rather than just spending millions to build hospitals and power plants throughout the developing world, USAID is partnering with foundations, foreign governments, inventors and engineers to generate new, low-cost innovations that can help countries skip the need for some of this physical infrastructure.

We aim to inspire inventors and entrepreneurs to help solve some of the grandest challenges in development: how we can ensure a woman will survive childbirth anywhere in the world, without a doctor by her side; how we can teach a child—who will likely never set foot inside a schoolhouse—to read; and how we can bring sustainable off-grid lighting to the millions of people who currently live in darkness.

The FY 2012 budget includes dedicated funding for these innovative approaches to development.

FROM THE AMERICAN PEOPLE, FOR THE AMERICAN PEOPLE

Delivering foreign assistance through these innovative approaches will lead to dramatic, meaningful gains in human welfare throughout the developing world.

Our assistance represents the spirit of our country's generosity; captured in USAID's motto: "From the American People."

But now more than ever, it is critical that the American people understand that our assistance also delivers real benefits *for* the American people: it keeps our country safe, develops the markets of tomorrow and expresses our collective values.

National Security

By improving global stability, our foreign assistance helps keep America safe. As Secretary of Defense Gates, Joint Chiefs Chairman Admiral Mullen, and General Petraeus have all emphasized to the Congress, we need a fully engaged and fully funded national security presence, including the core components of our nation's civilian

power: the State Department and USAID.

This year, for the first time, the President's budget designates a portion of USAID funding for Afghanistan to a separate account called the Overseas Contingency Operation Account. This transparent approach distinguishes between temporary war costs and our enduring budget in an effort to consolidate Defense, State, and USAID war costs.

In the most volatile regions of Afghanistan, USAID works side-by-side with the military, playing a critical role in stabilizing districts, building responsive local governance, improving the lives of ordinary Afghans, and—ultimately—helping to pave the way for American troops to return home.

For example, we're helping to improve agricultural yields in the Arghandab Valley. As a result, farmers shipped the first agricultural exports out of Kandahar in 40 years. We've also rebuilt the civil service in the southeast and helped fuel a 40 percent reduction in the growth of opium poppies that fund Taliban operations.

In Northwest Pakistan—the current base of operations for Al Qaeda and the Pakistani Taliban—USAID staff and partners undertake enormous personal risk administering over 1,400 small scale development projects. In the Malakand province, they've helped rebuild 150 schools so children there can become productive members of their economy, instead of turning to extremist madrassas.

Our work in promoting national security is not just limited to Afghanistan, Pakistan, and Iraq. Throughout the world, USAID is deploying development specialists today so that we do not have to deploy our troops tomorrow. As Secretary Gates has said: "Development is a lot cheaper than sending soldiers."

In Southern Sudan, the USAID mission worked with partners to design, procure and pre-position ballots and supplies months before the recent referendum on independence. That foresight helped ensure the referendum, which many predicted would never occur, proceeded peacefully and successfully, but also left us prepared in the event it would not.

Economic Growth

Beyond national security, USAID's work also strengthens America's economic security.

Today, long-time aid recipients like India, Indonesia, Poland and South Korea and other emerging economies have become America's fastest growing markets. Exports to developing countries have grown six times faster than exports to major economies and today they represent roughly half of all U.S. exports.

In 2009, we exported over half-a-trillion dollars in American goods and services to those countries, and 97% of those export revenues went to small-and-medium sized U.S. companies; that's why for every 10% increase we see in exports, there is a 7% increase in the number of jobs here at home.

We need to accelerate the economic growth of tomorrow's trade partners, ensuring those countries rise peacefully and sustainably.

But beyond these impacts, winning the future will depend on reaching the 2-3 billion people currently at the bottom of the pyramid who will come to represent a growing global middle class. By establishing links to these consumers today, we can effectively position American companies to sell them goods tomorrow.

Make no mistake: our success is intertwined with the progress of those around us.

American Values

The evidence is clear: development furthers our national and economic interests. But it also expresses our American values.

When we protect girls from sex trafficking in Latin America, stop deforestation in Latin America or help Afghan girls return to school we express American values.

When Americans see a neighbor in need, or witness suffering and injustice abroad, we respond; we mobilize; we act. We are a generous people. That fact was never clearer than when 20 million American families donated money to Haiti relief; more than watched the Super Bowl. And lest we forget, those donations came during even more difficult economic circumstances than we face today.

USAID is proud to put American values into action -- distributing antimalarial bed nets donated by school children, supporting faith based organizations that help ease suffering abroad, and engaging all Americans in solving the greatest global challenges and generating results.

BUDGET

And best of all, we can do this for less than one percent of our nation's total budget.

For just that sliver of our federal spending, we will help lift nearly 20 million people from an inescapable trap of hunger and poverty, transform AIDS from a death sentence to manageable disease for more than 4 million HIV-positive patients and prevent hundreds of millions of child deaths from preventable diseases by providing them vaccines and bed nets.

For a smaller percentage than what any other industrialized nation commits to foreign aid, we will remain the world's largest donor and continue to lead other countries in promoting development.

The President's FY 2012 budget for USAID outlines a number of significant cuts, presenting what I believe is an accurate reflection of our times: our nation's need to responsibly reduce its debt, and the ability of foreign nations to stand up on their own.

- This budget eliminates bilateral Development Assistance in 11 countries and terminates USAID missions in three.
- It cuts development assistance in at least 20 countries by more than half.
- And it reallocates almost \$400 million in assistance and shifts 30 Foreign Service positions toward priority countries and initiatives.

CONCLUSION

Right now is a critical moment in our country's history. As a nation, we are making a lasting determination about the future of our country, and the future of our global leadership.

Now is the time when America must decide whether it will engage and lead the world, actively using its tools of development, diplomacy and defense to improve human welfare and freedom across the globe...

...or whether it will retract, leaving many of its poorest, most fragile global partners without assistance, and leaving other emerging global powers like China to promote alternative economic and political models.

Budgets are an expression of policy; they're an expression of priorities. But fundamentally, they are an expression of values.

Our assistance is not just a line in a budget; it is a reflection of who we are as a country. Our foreign assistance programs began under President Truman. USAID was founded by President Kennedy. And our efforts in Food Security, Global Health and child literacy are hard-earned legacies of President Bush that our Administration has tried to enhance.

The values represented in the President's FY 2012 budget are clear: compassion, determination, and a commitment to universal freedom and opportunity. They are American values, through and through, and demonstrate the best of American global leadership. Putting these values into action will deliver real results for the American people, making us safer and more prosperous.

Thank you.